

MEMORANDUM

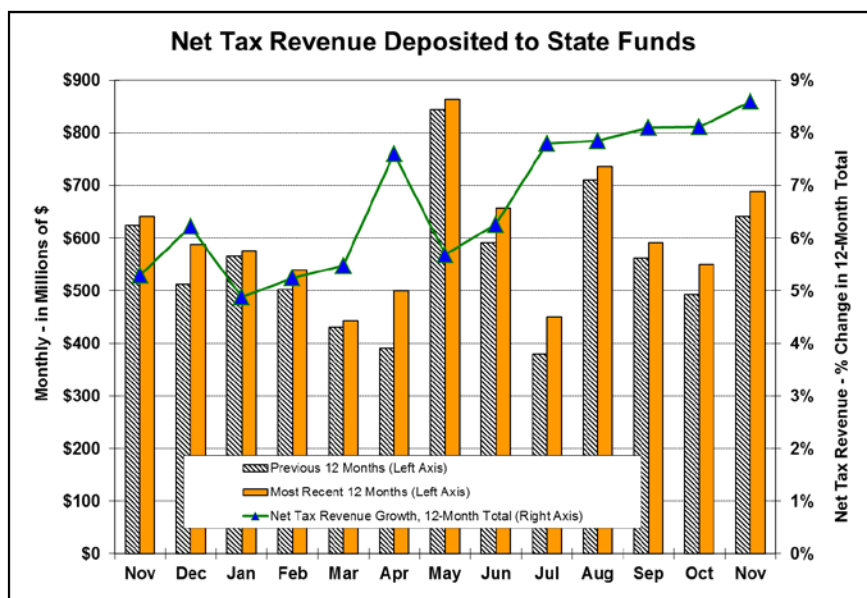
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: December 31, 2012

Twelve-month Total Net Tax Receipts Through November 30, 2012

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending November 2012 with comparisons to the previous twelve months. November 2011 to November 2012 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

At 8.6%, the annual net tax revenue growth rate is now higher than any time since April 2008 (9.2%). The month of November posted strong growth at 7.7%, aided by timing issues impacting gambling receipts, cigarette and tobacco tax, and corporate tax refunds. The month was disadvantaged compared to November 2011 due to early deposits of sales tax at the end of

October. With all adjustments in consideration, the month of November 2012 was somewhat less positive than the 7.7% growth indicates.

Month of November Comparison

November net tax receipts totaled \$689.2 million, an increase of \$49.2 million (7.7%) compared to November 2011. Major taxes and their contribution to the month's change include:

- Individual Income Tax (positive \$15.3 million, 5.6%) – Gross income tax deposits increased \$11.6 million in November while individual income tax refunds issued decreased \$3.7 million.
- Sales/Use Tax (negative \$8.1 million, - 2.7%)
 - Road Use Tax Fund use tax (fee for new vehicle registration) increased \$3.1 million in November.
 - Gross General Fund sales/use tax receipts decreased \$14.0 million (- 4.4%). The decrease was the result of the early deposit of quarterly sales tax payments. This provided a boost to October receipts at the expense of November. Regular sales tax refunds decreased \$2.4 million. School infrastructure transfers out decreased \$0.4 million in November.
- Corporate Income Tax (positive \$27.8 million) – Deposits of corporate income tax receipts decreased \$0.1 million in November, while corporate tax refunds decreased \$27.9 million. The large tax refund decrease is the result of timing issues that will reverse to some degree in December.
- Fuel Tax (negative \$0.1 million, - 0.3%) – Gross fuel tax deposits decreased \$0.7 million for the month while tax refunds decreased \$0.6 million.
- Cigarette and Tobacco Taxes (positive \$6.6 million, 42.0%) – There were five large cigarette and tobacco tax deposit dates in November 2012 but only four in November 2011, indicating that the large increase for the month was likely the result of deposit timing.
- Gambling Tax (positive \$6.2 million, 27.0%) – There were five large gambling tax deposit dates in November 2012 but only four in November 2011, indicating that the large increase for the month was likely the result of deposit timing.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending November 2012, net revenue from all taxes deposited to State funds totaled \$7.183 billion, an increase of \$568.0 million (8.6%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

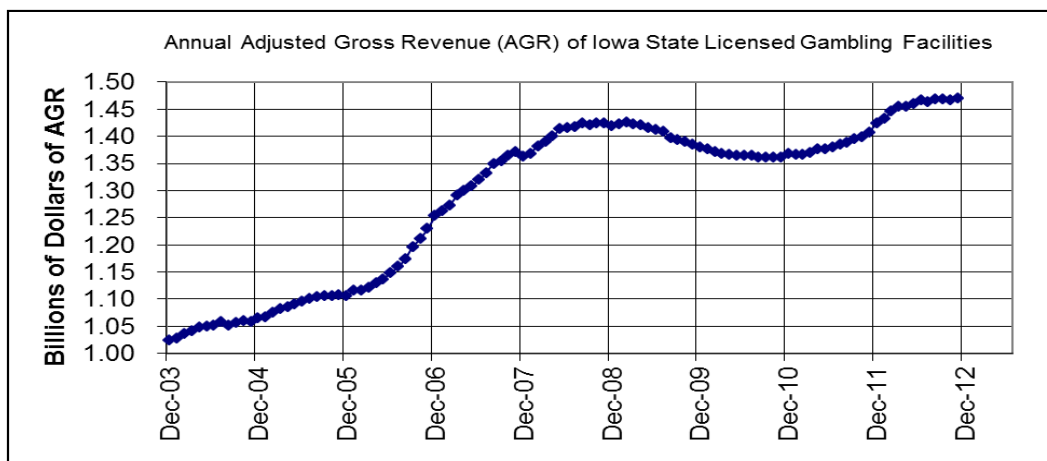
- Individual Income Tax (positive \$199.2 million, 6.9%) – Individual income tax continues to post good year-over-year annual growth.
- Sales/Use Tax (positive \$133.3 million, 5.9%) – Sales tax receipts continue to post very good gains, both for the General Fund and for the Road Use Tax Fund (vehicle sales).
- Corporate Income Tax (positive \$190.0 million, 67.6%) – Corporate income tax revenue has shown significant strength over the past 19 months, although the positive growth percentage will likely come down in December as tax refunds are issued.

- Fuel Tax (negative \$3.7 million, - 0.8%) – According to Department of Revenue fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 3.6% while taxable diesel sales decreased 0.2%. Taxable diesel sales over the most recent 12-month period are 4.1% lower than the March 2008 peak diesel sales level. Total taxable fuel gallons (gasoline/ethanol/diesel) have dipped below the prerecession peak (September 2007) for all taxed gallons sold.
- Gambling Tax (positive \$19.3 million, 6.8%) – According to Racing and Gaming Commission statistics, five of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12-month period ending November 2012. The combined AGR growth for the 18 facilities was positive 4.4% over the previous 12-month period, with the new Lyon County casino contributing 48.3% of the AGR growth. Across all facilities, the AGR for the most recent 12 months totaled \$1.470 billion.
- Real Estate Transfer Tax (positive \$2.9 million, 20.3%) – Annual real estate transfer tax receipts peaked in April 2006 at \$18.8 million and bottomed in May 2010 at \$12.9 million. Receipts are now 8.6% below the April 2006 peak.
- Cigarette and Tobacco Tax (positive \$6.6 million, 2.9%)

Tax Spotlight – Gambling Tax

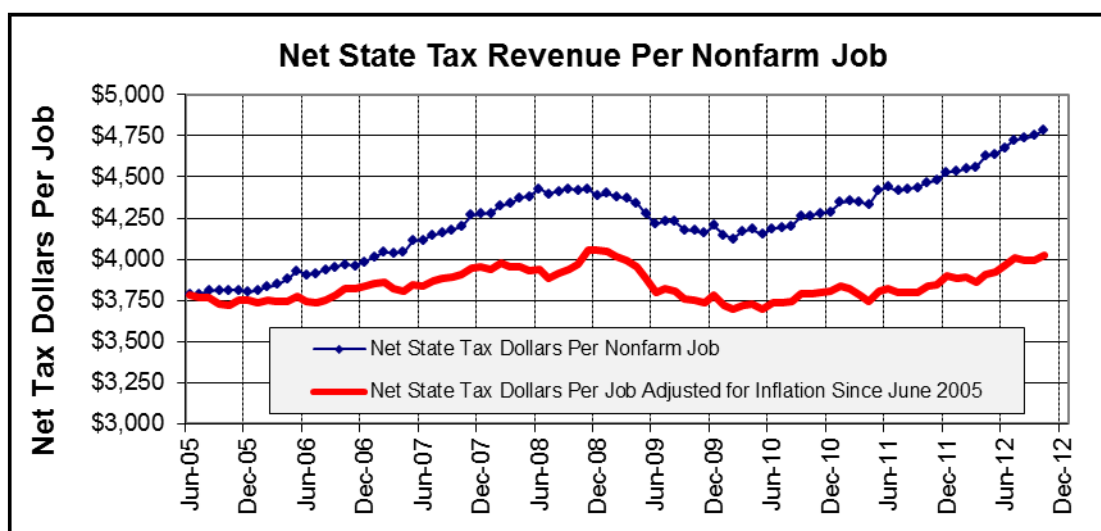
Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Iowa Code Chapters 99D and 99F. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 15 other casinos in Iowa with gaming subject to the State wagering tax in Iowa.



Tax Revenue and Employment

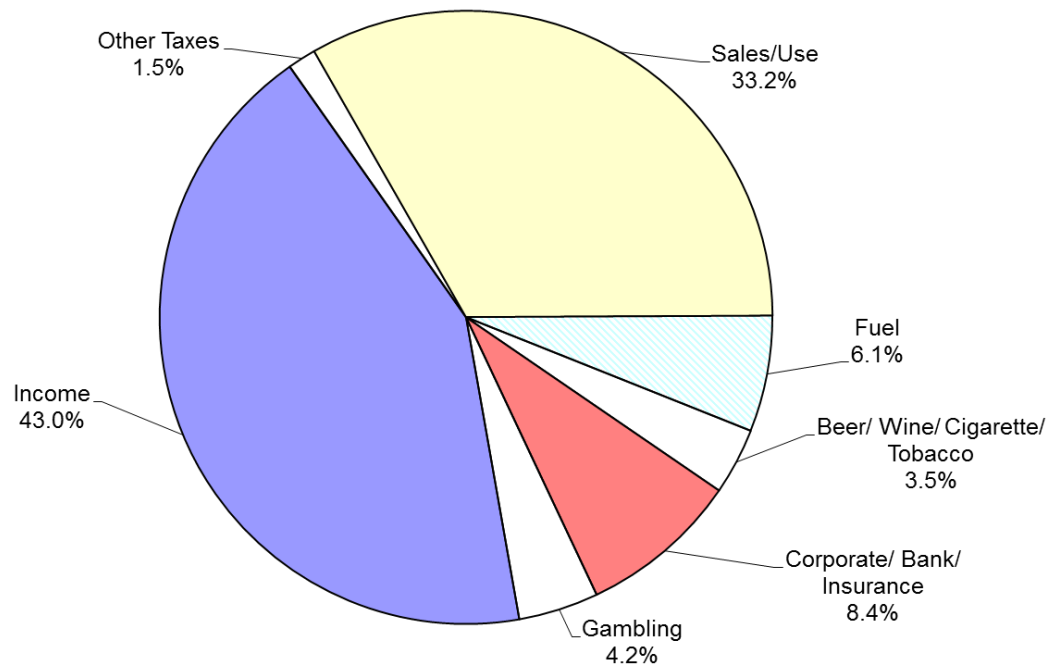
The average reading for Iowa nonfarm employment over the 12 months ending October 2012 is 1,490,400 and net State tax receipts over the same 12 months totaled \$7.134 billion, or \$4,787 per nonfarm job. This is \$1,002 (26.5%) higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line on the graph adjusts the June 2005 net tax revenue per job for inflation, and indicates inflation-adjusted tax revenue per job has increase since June 2005 by \$273 and the remainder of the \$1,002 increase represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending November 2012

Net Revenue = \$7.183 Billion

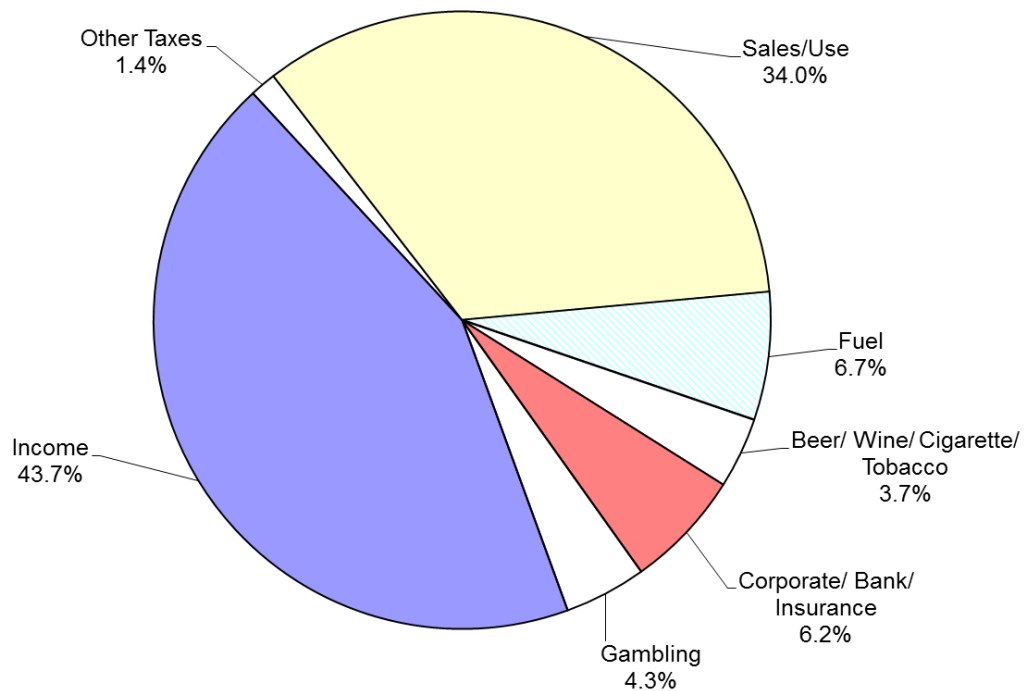
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending November 2011

Net Revenue = \$6.615 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2011	Month of November 2012	November \$ Change	November % Change
Banking	\$ 34.9	\$ 33.3	\$ - 1.6	-4.6%	\$ - 2.7	\$ - 1.0	\$ 1.7	--
Beer & Wine	21.5	22.1	0.6	2.8%	1.9	2.2	0.3	15.8%
Cigarette & Tobacco	223.8	230.4	6.6	2.9%	15.7	22.3	6.6	42.0%
Corporate Income	281.1	471.1	190.0	67.6%	- 17.6	10.2	27.8	--
Fuel	443.0	439.3	- 3.7	-0.8%	37.6	37.5	- 0.1	-0.3%
Gambling	284.3	303.6	19.3	6.8%	23.0	29.2	6.2	27.0%
Individual Income	2,890.5	3,089.7	199.2	6.9%	271.8	287.1	15.3	5.6%
Inheritance	66.9	81.0	14.1	21.1%	6.0	6.7	0.7	11.7%
Insurance	94.5	102.0	7.5	7.9%	0.0	0.2	0.2	--
Other Taxes	9.9	9.7	- 0.2	-2.0%	2.3	0.5	- 1.8	-78.3%
Real Estate Transfer	14.3	17.2	2.9	20.3%	1.1	1.5	0.4	36.4%
Sales/Use	2,250.5	2,383.8	133.3	5.9%	300.9	292.8	- 8.1	-2.7%
Total Net Taxes	\$ 6,615.2	\$ 7,183.2	\$ 568.0	8.6%	\$ 640.0	\$ 689.2	\$ 49.2	7.7%
Gross Tax & Refunds								
Gross Tax	\$ 7,900.8	\$ 8,433.7	\$ 532.9	6.7%	\$ 736.6	\$ 749.1	\$ 12.5	1.7%
Tax Refunds	\$ - 1,285.7	\$ - 1,250.4	\$ 35.3	-2.7%	\$ - 96.5	\$ - 60.0	\$ 36.5	-37.8%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,549.9	\$ 6,064.0	\$ 514.1	9.3%	\$ 551.7	\$ 591.3	\$ 39.6	7.2%
Road Use Tax Fund	\$ 734.9	\$ 754.2	\$ 19.3	2.6%	\$ 61.5	\$ 64.4	\$ 2.9	4.7%
Non-GF Gambling	\$ 213.3	\$ 230.1	\$ 16.8	7.9%	\$ 3.4	\$ 4.9	\$ 1.5	44.1%
Other State Funds	\$ 117.0	\$ 135.0	\$ 18.0	15.4%	\$ 23.5	\$ 28.5	\$ 5.0	21.3%
Local Option Taxes *	\$ 834.5	\$ 861.4	\$ 26.9	3.2%	\$ 68.9	\$ 72.0	\$ 3.1	4.5%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds, including \$66.0 million per year to the State General Fund. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bonds Subsidy Holdback Fund, and the Revenue Bonds Debt Service Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$4.0 million per year is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.